

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;  
Nanci E. Langley, Vice Chairman;  
Mark Acton; and  
Robert G. Taub

Competitive Product Prices  
Global Plus 1C Contracts (MC2012-6)  
Negotiated Service Agreements

Docket Nos. MC2012-6  
CP2012-12  
CP2012-13

ORDER ADDING GLOBAL PLUS 1C TO THE  
COMPETITIVE PRODUCT LIST AND APPROVING  
RELATED GLOBAL PLUS 1C AGREEMENTS

(Issued January 19, 2012)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as Global Plus 1C to the competitive product list. For the reasons discussed below, the Commission approves the Request.<sup>1</sup>

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<sup>1</sup> Request of the United States Postal Service to Add Global Plus 1C to the Competitive Products List and Notice of Filing Two Functionally Equivalent Global Plus 1C Contracts Negotiated Service Agreements and Application for Non-public Treatment of Materials Filed under Seal, January 4, 2012 (Request). The Request was filed pursuant to 39 U.S.C. 3642 and 39 CFR 3020.30 *et seq.*, and Order No. 85. *Id.* at 1.

## II. BACKGROUND

*Introduction.* On January 4, 2012, the Postal Service filed a request to add Global Plus 1C as a new product to the competitive product list, along with a related notice announcing two new Global Plus 1C contracts (Agreements). It concurrently filed redacted versions of supporting data and information, including the new Agreements, and an application for non-public treatment of unredacted material.<sup>2</sup> The Commission noticed the Postal Service's Request and addressed related administrative matters in Order No. 1112.<sup>3</sup>

*Product history.* The Postal Service states that Governors' Decision No. 08-08 establishes prices and classifications for Global Plus Contracts and reviews previous dockets in which related new products and agreements were approved. Request at 1-2. It characterizes the instant Agreements as the immediate successors to the agreements the Commission approved for inclusion in the Global Plus 1B product last year; says they involve the same customers; and notes that they take effect upon termination of the Global Plus 1 agreements.<sup>4</sup> Request at 4.

*The instant Agreements.* The Postal Service believes the instant Agreements fit within the Mail Classification Schedule (MCS) language for Global Plus 1. It characterizes them as the immediate successors and counterparts of the Global Plus 1 agreements in Docket Nos. CP2011-39 and CP2011-40, which are scheduled to expire at 11:59 p.m. on the day prior to the date of any change in the published rates that affect Qualifying Mail in the Agreements. *Id.* at 5.

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<sup>2</sup> Attachment 1 includes the application. No one opposed the application. Attachments 2A and 2B, respectively, are redacted versions of Governors' Decision No. 08-08 and Governors' Decision No. 11-6. Attachment 2C is a revised version of MCS 2510.6 Global Plus Contracts. Attachments 2D and 2E are redacted versions of certified statements. Attachment 3 is a Statement of Supporting Justification. Attachments 4A and 4B are redacted versions of the Agreements.

<sup>3</sup> Notice and Order on Request Concerning Global Plus 1C Contracts, January 6, 2012 (Order No. 1112); see also 77 FR 2098 (January 13, 2012).

<sup>4</sup> See Docket Nos. CP2011-39 and CP2011-40.

*Timing of transition.* Pursuant to recent administrative developments, a change in the published rates that affect Express Mail International and Priority Mail International is scheduled to occur on January 22, 2012. *Id.* Accordingly, the Postal Service says the instant Agreements are set to begin on January 22, 2012, upon expiration of the Global Plus 1B agreements. They will remain in effect until either 11:59 p.m. on the day prior to the date of any change in the published rates that affect Qualifying Mail (in the Agreements) that may fall within the month of January 2013 or, in the event the date the referenced price change does not occur before January 31, 2013, the Agreements terminate at 11:59 p.m. on January 31, 2013. *Id.*

*Functional equivalence.* The Postal Service considers the instant Agreements functionally equivalent in that they share similar cost and market characteristics. *Id.* It notes that the pricing formula and classification established in Governors' Decision No. 08-08 ensure that each Global Plus 1 agreement meets section 3633 criteria and related regulations, and says Governors' Decision No. 11-6 includes the pricing formula for the instant Agreements. *Id.* at 6. The Postal Service also asserts that the costs of each Agreement conform to a common description and that the proposed MCS language requires each of the instant Agreements to cover attributable costs. *Id.* It therefore says the Agreements meet the Governors' criteria; exhibit cost and market characteristics similar to the previous Global Plus 1 agreements; and therefore should be classified as a single product. *Id.*

The Postal Service asserts the instant Agreements are very similar, except for each customer's identifying information and a limited number of terms. It identifies the salient differences as a variation in the commitment to tender a certain amount of postage (Article 7, ¶1) and a resulting variation in penalties for non-achievement of commitments (Article 13, ¶1). *Id.* The Postal Service attributes these differences to the result of negotiations and claims they do not affect the rate design used to generate rates nor the market characteristics of the Global Plus 1 product. *Id.* The Postal Service says the Global Plus 1C product is distinct from Global Plus 1B due to the

addition of Global Express Guaranteed and Commercial ePacket. *Id.* at 7. It recognizes this distinction in a minor classification change (in Attachment 2C) and in the financial models. *Id.*

The Postal Service asserts that because the customers who signed the Agreements are similar in relevant customer characteristic, the similarity in the Agreements is appropriate and does not produce an implicit lack of functional equivalence. It therefore submits that the two agreements are functionally equivalent to each other and should be grouped together as a single product. *Id.*

*Representations regarding part 3020 filing requirements.* The Postal Service reviews the material it has filed in this and previous related cases, and asserts that its submissions demonstrate the consistency of the Global Plus 1C Agreements with applicable statutory criteria. *Id.* at 7-8. It notes that all Global Plus 1 agreements, whether classified as a single product or individually, are negotiated service agreements concerning outbound international mail, and therefore contends there is no need to ponder whether Global Plus 2C agreements are market dominant or covered within the postal monopoly. *Id.* at 9.

*Baseline status.* The Postal Service asks that the instant Agreements be considered baseline agreements for future functional equivalency analyses for the Global Plus 1C product. *Id.* at 10.

### III. COMMENTS

The Commission received comments from the Public Representative.<sup>5</sup> The Public Representative concludes that the instant Agreements (1) satisfy the criteria of 39 U.S.C. 3642(b) concerning classification of new competitive products, and (2) comply with the requirements of 39 U.S.C. 3622(a) concerning rates for new

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<sup>5</sup> Public Representative Comments on Request of the Postal Service to Add Global Plus 1C to the Competitive Products List and Notice of Filing Two Functionally Equivalent Global Plus 1C Negotiated Service Agreements, January 17, 2012 (PR Comments). No other comments were filed.

products. *Id.* at 3. He also believes that treating the instant functionally equivalent Agreements as new baseline agreements is appropriate. *Id.*

The Public Representative finds, with respect to product classification, that the Postal Service makes reasonable arguments that the instant Agreements, which involve outbound mail, are neither market dominant nor covered within the postal monopoly. *Id.* He also notes that the Statement of Supporting Justification (Attachment 3) provides information addressing the additional considerations listed in 39 U.S.C. 3642(b)(3), and that the Commission has previously classified the predecessor Global Plus 1A and 1B products as competitive. *Id.* He therefore concludes that the Global Plus 1C product satisfies section 3642(b) criteria for classification as competitive, and should be added to the competitive product list. *Id.*

The Public Representative reiterates, with respect to product costs, the observations and conclusions about the data source for cost estimates he offered in a set of recently concluded cases involving Global Plus 2C agreements.<sup>6</sup> His point is that the cost estimates for the Agreements are based on FY 2010 costs and data from the FY 2010 International Cost and Revenue Analysis (ICRA) Report, adjusted for estimates of future inflation, instead of FY 2011 ICRA costs and data. PR Comments at 3. He says this suggests the estimates in the instant Agreements are less certain, and thus less reliable, as they are adjusted for inflation estimates for a period of more than 2 years. *Id.* He nevertheless finds here, as he did with respect to the Global Plus 2C agreements, that the financial models support a conclusion that the negotiated prices for the instant Agreements should cover estimated costs, and that the product is thus compliant with section 3633(a). However, he suggests the Postal Service use cost information from the most recent ICRA in its financial models to develop contract cost estimates for future Global Plus agreements. *Id.*

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<sup>6</sup> See Docket Nos. MC2012-5, CP2012-10 and CP2012-11, Public Representative Comments on Request of the Postal Service to Add Global Plus 2C to the Competitive Products List and Notice of Filing Two Functionally Equivalent Global Plus 2C Negotiated Service Agreements, January 11, 2012, at 4.

The Public Representative also reviews, in connection with functional equivalence, the Postal Service's discussion of the similarities and differences between the instant Agreements and the Global Plus 1B agreements. *Id.* at 4-5. He agrees that the differences do not alter the conclusion that the two Global Plus 1C Agreements are functionally equivalent. He also agrees that the instant Agreements should serve as baseline agreements for future tests of functional equivalency. *Id.* at 5.

#### IV. COMMISSION ANALYSIS

*Issues.* At issue is whether Global Plus 1C qualifies for addition as a new product under 39 U.S.C. 3642; whether the Global Plus 1C Agreements satisfy the criteria in 39 U.S.C. 3633; and whether the Global Plus 1C Agreements should serve as new baseline agreements.

*Product classification.* The relevant classification inquiries are whether the product qualifies as market dominant; is covered by the postal monopoly; and reflects certain considerations, such as private sector competition and impact on small businesses. 39 U.S.C. 3642(b). As the Postal Service notes, Commission Order No. 43 assigned all negotiated service agreements concerning outbound international mail to the competitive category. Request at 8. Given that decision, the Public Representative's assessment, and an independent review of the Postal Service's filing in this case, the Commission finds that the Global Plus 1C product is properly classified as competitive.

*Costs.* The relevant inquiries are whether the Postal Service has demonstrated that competitive product rates (1) do not result in market dominant products subsidizing competitive products; (2) ensure that each competitive product covers its attributable costs; and (3) ensure that competitive products collectively cover an appropriate share of institutional costs. 39 U.S.C. 3633(a). Both the Postal Service and the Public Representative assert that the Agreements satisfy 39 U.S.C. 3633.

Based on analysis of the data and information filed in this case, the Commission finds that the Agreements should cover their attributable costs (consistent with 39 U.S.C. 3633(a)(2)); should not lead to the subsidization of competitive products by market dominant products (39 U.S.C. 3633(a)(1)); and should have a positive effect on the contribution competitive products make to institutional costs (in satisfaction of 39 U.S.C. 3633(a)(3)). Thus, initial review of the instant Agreements indicates they comport with statutory provisions applicable to rates for competitive products.

*Baseline status.* Having considered the points the Postal Service offers in support of treating the instant Agreements as baseline agreements for future tests of the functional equivalency of Global Plus 1C agreements and the Public Representative's agreement, the Commission approves the use of the instant Agreements as baseline agreements in future analyses of Global Plus 1C agreements.

*ICRA data.* In Order No. 1135, the Commission agreed with the Public Representative that reliance on the most recent available ICRA cost data and information is preferable to use of less current data.<sup>7</sup> Future filings should use the most current ICRA data and information or provide an explanation why it is not possible to do so.

*MCS.* It appears that due to time constraints and other factors, the Postal Service has filed MCS language with cross-references to provisions in other MCS sections. The Commission believes it is more appropriate for the MCS to include stand-alone provisions. The Commission accepts the approach used in this case as a temporary expedient. However, in future filings, the Postal Service should endeavor to use stand-alone provisions.

*Follow-up submissions.* Global Plus 1B agreements (in predecessor Docket Nos. CP2011-39 and CP2011-40) are scheduled to expire at 11:59 p.m. on January 21, 2012 pursuant to contractual terms linking expiration to the day before a change in the

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<sup>7</sup> Order Adding Global Plus 2C to the Competitive Product List and Approving Functionally Equivalent Global Plus 2C Agreements, January 13, 2012, at 6 (Order No. 1135).

published rates that affect Qualifying Mail. The date of the controlling rate change is January 22, 2012. *Id.* at 5. The Commission, in Order No. 622, directed the Postal Service to file the costs, volumes, and revenues (disaggregated by weight and country group) associated with the current agreements, including any penalties paid, within 30 days of expiration.<sup>8</sup> The Postal Service shall file the same type of data and information within 30 days of the termination of the instant Agreements.

*Formal action on Request.* The Commission adds Global Plus 1C to the competitive product list. It finds that the agreements filed in Docket Nos. CP2012-12 and CP2012-13 are appropriately included within the Global Plus 1C product. It further finds that the instant Agreements may serve as baseline agreements in future tests of functional equivalency for Global Plus 1C agreements.

## V. ORDERING PARAGRAPHS

*It is ordered:*

1. Global Plus 1C (MC2012-6, CP2012-12 and CP2012-13) is added to the competitive product list as a new product, under Negotiated Service Agreements, Outbound International.
2. The agreements filed in Docket Nos. CP2012-12 and CP2012-13 are included within the Global Plus 1C product.
3. The Postal Service shall inform the Commission of the effective dates of each agreement and notify the Commission if either agreement terminates earlier than scheduled, as discussed in this Order.

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<sup>8</sup> Docket Nos. MC2011-7, CP2011-39 and CP2011-40, Order Adding Competitive Product List and Approving Functionally Equivalent Global Plus 1B Contracts, at 9 (Order No. 622 at ¶4).



4. Within 30 days of the expiration of the instant Agreements (Docket Nos. CP2012-12 and CP2012-13), the Postal Service shall file costs, volumes, and revenues disaggregated by weight and country group associated with the respective Agreements, including any penalties paid.
5. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Shoshana M. Grove  
Secretary

CHANGE IN MAIL CLASSIFICATION SCHEDULE  
CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified at 39 CFR Appendix A to Subpart A of Part 3020—Mail Classification Schedule. These changes are in response to Docket Nos. MC2012-6, CP2012-12 and CP2012-13. The Commission uses two main conventions when revising the product lists. The addition of text is indicated by underscoring. Deleted text is indicated by a strikethrough.

PART B—Competitive Products

2000 Competitive Product List

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Negotiated Service Agreements

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Outbound International

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Global Plus 1C (MC2012-6, CP2012-12 and CP2012-13)

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